

MONTEZUMA COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Montezuma Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2006 Election)</b>		
Greg Long	President	2006
Mike Phillips	Vice President	2006
Doug Johnston	Board Member	2007
Pete Ross	Board Member	2007
Doug Hoksbergen	Board Member	2008

<b>Board of Education</b>		
<b>(After September 2006 Election)</b>		
Pete Ross	President	2007
Doug Johnston	Vice President	2007
Vince Johnson	Board Member	2009
Steve Audas	Board Member	2009
Doug Hoksbergen	Board Member	2008

<b>School Officials</b>		
Bill Cox	Superintendent	2007
Barbara J. Albin	District Secretary/ Treasurer	2007
Randy DeGeest	District Attorney	2007

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education of the  
Montezuma Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District, Montezuma, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2008 on our consideration of Montezuma Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

**Member American Institute & Iowa Society of Certified Public Accountants**

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montezuma Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Nolte, Cornman & Johnson*  
NOLTE, CORNMAN & JOHNSON, P.C.

March 26, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Montezuma Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$4,610,629 in fiscal year 2006 to \$4,831,602 in fiscal year 2007, while General Fund expenditures increased from \$4,403,273 in fiscal 2006 to \$4,666,606 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$446,544 in fiscal 2006 to \$572,087 in fiscal 2007.
- The increase in General Fund revenues was attributable to an increase in local tax revenues in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Overall, the District increased net assets in the governmental activities by \$103,378, and increased in the business-type activities by \$24,896, respectively.
- As of June 30, 2007, the District's solvency ratio was 11.0% as compared to 9.1% for June 30, 2006. Since fiscal year 2005, the District's solvency ratio has risen from 4.6% to 11.0%.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Montezuma Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Montezuma Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Montezuma Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

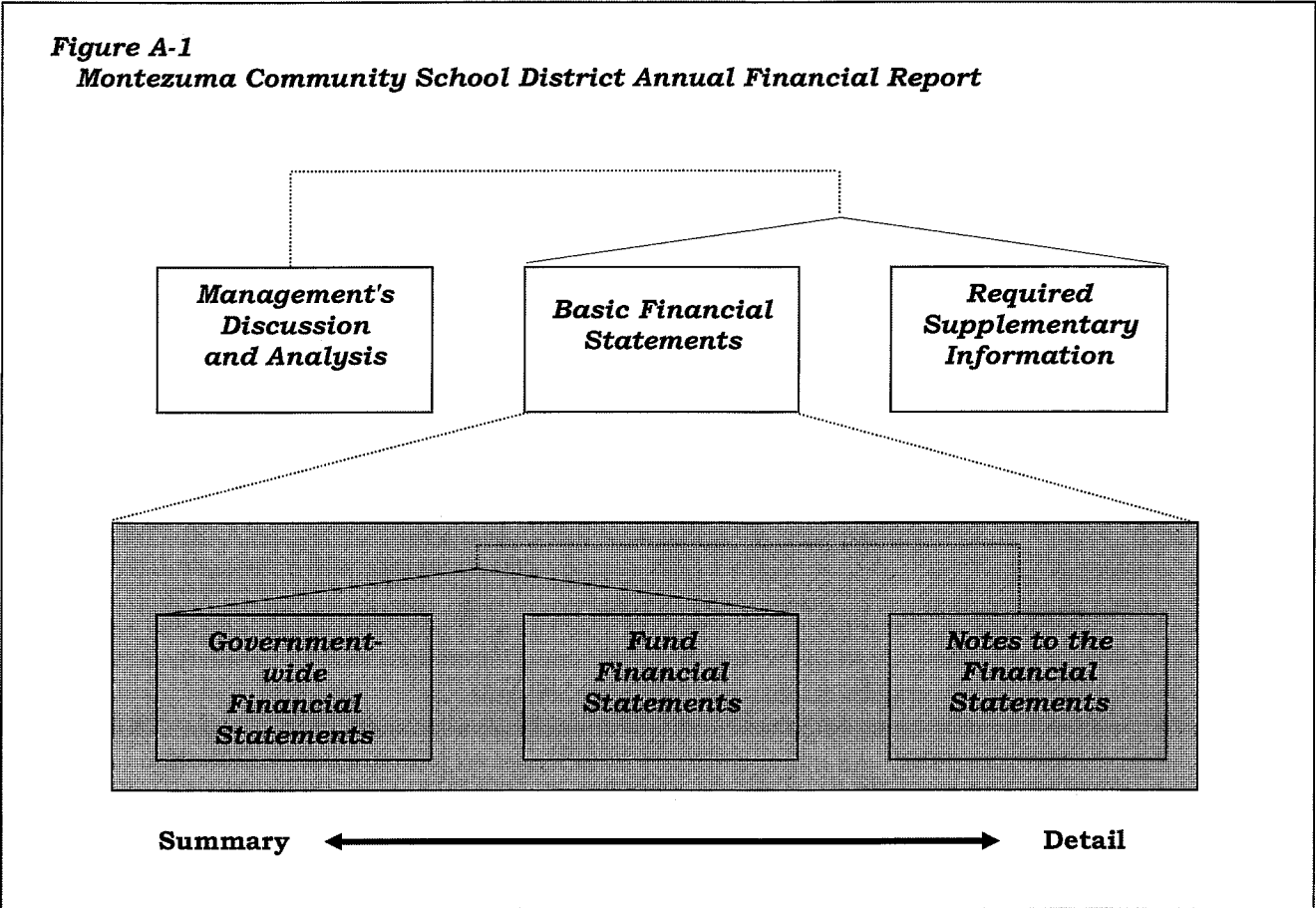


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and the Preschool Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 4,251,817	4,661,412	40,553	11,241	4,292,370	4,672,653	-8.14%
Capital assets	1,080,304	1,083,903	43,112	37,205	1,123,416	1,121,108	0.21%
Total assets	5,332,121	5,745,315	83,665	48,446	5,415,786	5,793,761	-6.52%
Long-term obligations	376,765	55,036	0	0	376,765	55,036	584.58%
Other liabilities	2,654,092	3,492,393	19,112	8,789	2,673,204	3,501,182	-23.65%
Total liabilities	3,030,857	3,547,429	19,112	8,789	3,049,969	3,556,218	-14.24%
Net assets:							
Invested in capital assets, net of related debt	1,069,065	1,083,903	43,112	37,205	1,112,177	1,121,108	-0.80%
Restricted	726,450	505,256	0	0	726,450	505,256	43.78%
Unrestricted	505,749	608,727	21,441	2,452	527,190	611,179	-13.74%
Total net assets	\$ 2,301,264	2,197,886	64,553	39,657	2,365,817	2,237,543	5.73%

The District's combined net assets increased by 5.73% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 43.78% compared to prior year.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased 13.74% over the prior year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 as compared to the year ended 2006.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 574,994	640,813	181,666	128,063	756,660	768,876	-1.59%
Operating grants and contributions and restricted interest	576,904	527,410	94,654	106,566	671,558	633,976	5.93%
General revenues:							
Local tax	2,207,564	2,084,795	0	0	2,207,564	2,084,795	5.89%
Local option sales and service tax	411,199	323,680	0	0	411,199	323,680	27.04%
Unrestricted state grants	1,742,758	1,779,523	0	0	1,742,758	1,779,523	-2.07%
Other	243,002	105,301	573	8,645	243,575	113,946	113.76%
Transfers	(100,578)	0	52,479	31,611	(48,099)	31,611	-252.16%
Total revenues	5,655,843	5,461,522	329,372	274,885	5,985,215	5,736,407	4.34%
Program expenses:							
Governmental activities:							
Instruction	3,748,390	3,477,638	0	0	3,748,390	3,477,638	7.79%
Support services	1,415,468	1,101,291	0	0	1,415,468	1,101,291	28.53%
Non-instructional programs	400	0	304,476	240,746	304,876	240,746	26.64%
Other expenses	388,207	337,878	0	0	388,207	337,878	14.90%
Total expenses	5,552,465	4,916,807	304,476	240,746	5,856,941	5,157,553	13.56%
Change in net assets	103,378	544,715	24,896	34,139	128,274	578,854	-77.84%
Net assets beginning of year	2,197,886	1,653,171	39,657	5,518	2,237,543	1,658,689	34.90%
Net assets end of year	\$ 2,301,264	2,197,886	64,553	39,657	2,365,817	2,237,543	5.73%

In fiscal 2007, local tax and unrestricted state grants account for 69.84% of the revenue from governmental activities while charges for services and operating grants and contributions account for 83.89% of the revenue from business type activities.

The District's total revenues were approximately \$5.99 million of which \$5.66 million was for governmental activities and approximately \$0.33 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.34% increase in revenues and a 13.56% increase in expenses. The increase in expenses was related to increases in the negotiated salary and benefits as well as an increase in expenditures funded by grants received by the District.

#### Governmental Activities

Revenues for governmental activities were \$5,655,843 and expenses were \$5,552,465.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 3,748,390	3,477,638	7.79%	2,764,878	2,472,354	11.83%
Support services	1,415,468	1,101,291	28.53%	1,413,673	1,100,410	28.47%
Non-instructional	400	0	100.00%	400	0	100.00%
Other expenses	388,207	337,878	14.90%	221,616	175,820	26.05%
Totals	<u>\$ 5,552,465</u>	<u>4,916,807</u>	<u>12.93%</u>	<u>4,400,567</u>	<u>3,748,584</u>	<u>17.39%</u>

- The cost financed by users of the District's programs was \$574,994.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$576,904.
- The net cost of governmental activities was financed with \$2,207,564 in property tax, \$411,199 in local option sales and services tax, \$1,742,758 in unrestricted state grants, \$113,654 in interest income and \$129,348 in other general revenues.

### Business-Type Activities

Revenues of the District's business-type activities were \$329,372 and expenses were \$304,476. The District's business-type activity is the School Nutrition Fund and the Preschool Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### INDIVIDUAL FUND ANALYSIS

As previously noted, the Montezuma Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,375,016, above last year's ending fund balances of \$979,621.

### Governmental Fund Highlights

- The District's General Fund financial position changed from \$446,544 in fiscal 2006 to \$572,087 in fiscal 2007. This was due to the increase in revenues being more than enough to offset the increase in expenditures during the year.
- The District's Capital Projects Fund increased \$188,463, to an ending fund balance of \$480,562. The increase in fund balance can be attributed to an increase in interest income earned as well as an increase in the amount of local option sales tax received by the fund in fiscal 2007. Fund expenditures decreased by \$13,607 as compared to 2006. These factors ensured the increase in fund balance for the Capital Projects Fund.
- The District increased its tax levy which allowed the Management Levy Fund to improve from \$62,689 to \$115,332. Although fund expenditures increased by \$33,113 as compared to fiscal 2006, the increase in fund revenues was more than enough to offset the expenditure increase.

## **Proprietary Funds Highlights**

The School Nutrition Fund net assets increased from \$39,657 at June 30, 2006 to \$67,212 at June 30, 2007, representing an increase of 69.48%. Nearly half of the increase was due to the capital contributions made from the Capital Projects Fund and a transfer from the General Fund during the year.

The District opened a preschool during fiscal 2007. For the year ended June 30, 2007, the fund ended with a deficit balance of \$2,659. The General Fund transferred \$39,119 for operating capital for the preschool during the year.

## **BUDGETARY HIGHLIGHTS**

The District's revenues were \$441,744 more than budgeted revenues, a variance of 7.95%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Initially total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

Unfortunately during the year ended June 30, 2007, expenditures in the instruction, support services and non-instructional programs functions exceeded the amounts budgeted without sufficient time available to amend the budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2007, the District had invested \$1,123,416, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$123,718.

The original cost of the District's capital assets was \$4,239,315. Governmental funds account for \$4,109,680 with the remainder of \$129,635 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress increased due to the roofing project not being completed as of June 30, 2007.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 52,500	52,500	0	0	52,500	52,500	0.00%
Construction in progress	41,961	0	0	0	41,961	0	100.00%
Buildings	794,486	857,867	0	0	794,486	857,867	-7.98%
Land improvements	46,794	40,330	0	0	46,794	40,330	13.81%
Machinery and equipment	144,563	133,206	43,112	37,205	187,675	170,411	9.20%
Total	\$ 1,080,304	1,083,903	43,112	37,205	1,123,416	1,121,108	0.21%

### Long-Term Debt

At June 30, 2007, the District had \$376,765 in long-term debt outstanding. This represents an increase of 584.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had an outstanding bus lease payable of \$11,239 at June 30, 2007.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$365,526 at June 30, 2007.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
Early retirement	365,526	32,995	1007.8%
Bus lease	11,239	22,041	-49.0%
Totals	\$ 376,765	55,036	584.6%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact David Versteeg, Superintendent, Montezuma Community School District, 504 North 4<sup>th</sup> Street, Box 580, Montezuma, Iowa, 50171.

## BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 374,408	0	374,408
Other	1,546,972	27,799	1,574,771
Receivables:			
Property tax:			
Delinquent	24,890	0	24,890
Succeeding year	1,885,243	0	1,885,243
Income surtax	222,764	0	222,764
Accounts	738	3,970	4,708
Accrued ISCAP interest (Note 4)	27,991	0	27,991
Due from other governments	168,811	0	168,811
Inventories	0	8,784	8,784
Capital assets, net of accumulated depreciation (Note 5)	1,080,304	43,112	1,123,416
<b>Total Assets</b>	<b>5,332,121</b>	<b>83,665</b>	<b>5,415,786</b>
<b>Liabilities</b>			
Accounts payable	22,591	0	22,591
Salaries and benefits payable	343,924	17,233	361,157
Accrued interest payable	55	0	55
ISCAP warrants payable (Note 4)	375,000	0	375,000
ISCAP interest payable (Note 4)	24,497	0	24,497
ISCAP unamortized premium	2,782	0	2,782
Deferred revenue:			
Succeeding year property tax	1,885,243	0	1,885,243
Unearned revenue	0	1,879	1,879
Long-term liabilities (Note 6):			
Portion due within one year:			
Early retirement payable	127,796	0	127,796
Bus lease payable	11,239	0	11,239
Portion due after one year:			
Early retirement payable	237,730	0	237,730
<b>Total Liabilities</b>	<b>3,030,857</b>	<b>19,112</b>	<b>3,049,969</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,069,065	43,112	1,112,177
Restricted for:			
Talented and gifted	32,631	0	32,631
Salary improvement program	261	0	261
Additional teacher contract day	1,883	0	1,883
Professional development	102	0	102
Market factor	3,976	0	3,976
Debt service	1,216	0	1,216
Physical plant and equipment levy	51,514	0	51,514
Capital projects	480,562	0	480,562
Other special revenue purposes	154,305	0	154,305
Unrestricted	505,749	21,441	527,190
<b>Total Net Assets</b>	<b>\$ 2,301,264</b>	<b>64,553</b>	<b>2,365,817</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activitie:	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,311,645	319,304	372,975	(1,619,366)	0	(1,619,366)
Special instruction	651,536	70,862	27,422	(553,252)	0	(553,252)
Other instruction	785,209	184,024	8,925	(592,260)	0	(592,260)
	3,748,390	574,190	409,322	(2,764,878)	0	(2,764,878)
Support services:						
Student services	72,440	0	0	(72,440)	0	(72,440)
Instructional staff services	134,386	0	0	(134,386)	0	(134,386)
Administration services	612,219	0	0	(612,219)	0	(612,219)
Operation and maintenance of plant services	391,037	0	0	(391,037)	0	(391,037)
Transportation services	205,386	804	991	(203,591)	0	(203,591)
	1,415,468	804	991	(1,413,673)	0	(1,413,673)
Non-instructional programs:						
Food service operations	400	0	0	(400)	0	(400)
Other expenditures:						
Facilities acquisitions	151,722	0	0	(151,722)	0	(151,722)
Long-term debt interest	846	0	0	(846)	0	(846)
AEA flowthrough	166,591	0	166,591	0	0	0
Depreciation (unallocated)*	69,048	0	0	(69,048)	0	(69,048)
	388,207	0	166,591	(221,616)	0	(221,616)
Total governmental activities	5,552,465	574,994	576,904	(4,400,567)	0	(4,400,567)
Business-Type activities:						
Instruction:						
Regular instruction	41,628	0	0	0	(41,628)	(41,628)
Non-instructional programs:						
Nutrition services	238,655	168,312	83,996	0	13,653	13,653
Daycare	24,193	13,354	10,658	0	(181)	(181)
Total business-type activities	304,476	181,666	94,654	0	(28,156)	(28,156)
Total	\$ 5,856,941	756,660	671,558	(4,400,567)	(28,156)	(4,428,723)
General Revenues and Transfers:						
General Revenues:						
Local tax for:						
General purposes				\$ 2,151,729	0	2,151,729
Capital outlay				55,256	0	55,256
Debt service				579	0	579
Local option sales and services tax				411,199	0	411,199
Unrestricted state grants				1,742,758	0	1,742,758
Unrestricted investment earnings				113,654	573	114,227
Gain on sale of assets				2,366	0	2,366
Other				126,982	0	126,982
Transfers				(100,578)	52,479	(48,099)
Total general revenues and transfers				4,503,945	53,052	4,556,997
Changes in net assets				103,378	24,896	128,274
Net assets beginning of year				2,197,886	39,657	2,237,543
Net assets end of year				\$ 2,301,264	64,553	2,365,817

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 374,408	0	0	374,408
Other	805,299	421,312	320,361	1,546,972
Receivables:				
Property tax				
Delinquent	22,384	0	2,506	24,890
Succeeding year	1,657,243	0	228,000	1,885,243
Income surtax	222,764	0	0	222,764
Accounts	192	0	546	738
Accrued ISCAP interest(Note 4)	27,991	0	0	27,991
Due from other governments	108,473	60,338	0	168,811
<b>Total Assets</b>	<b>\$ 3,218,754</b>	<b>481,650</b>	<b>551,413</b>	<b>4,251,817</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 20,457	1,088	1,046	22,591
Salaries and benefits payable	343,924	0	0	343,924
ISCAP warrants payable(Note 4)	375,000	0	0	375,000
ISCAP interest payable(Note 4)	24,497	0	0	24,497
ISCAP unamortized premium	2,782	0	0	2,782
Deferred revenue:				
Succeeding year property tax	1,657,243	0	228,000	1,885,243
Income surtax	222,764	0	0	222,764
Total liabilities	2,646,667	1,088	229,046	2,876,801
Fund balances:				
Reserved for:				
Talented and gifted	32,631	0	0	32,631
Salary improvement program	261	0	0	261
Additional teacher contract day	1,883	0	0	1,883
Professional development	102	0	0	102
Market factor	3,976	0	0	3,976
Debt service	0	0	1,216	1,216
Unreserved	533,234	480,562	321,151	1,334,947
Total fund balances	572,087	480,562	322,367	1,375,016
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,218,754</b>	<b>481,650</b>	<b>551,413</b>	<b>4,251,817</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

**Total fund balances of governmental funds (page 15)** \$ 1,375,016

***Amounts reported for governmental activities in the  
 statement of net assets are different because:***

Capital assets used in governmental activities are not  
 financial resources and, therefore, are not reported as  
 assets in in the governmental funds. 1,080,304

Accounts receivable income surtax, are not yet available  
 to finance expenditures of the current fiscal period. 222,764

Accrued interest payable on long-term liabilities is  
 not due and payable in the current period and, therefore,  
 is not reported as a liability in the governmental funds. (55)

Long-term liabilities, including bus lease payable and  
 early retirement are not due and payable in the  
 current period and, therefore, are not reported as  
 liabilities in the governmental funds. (376,765)

**Net assets of governmental activites (page 13)** \$ 2,301,264

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,978,387	411,199	195,913	2,585,499
Tuition	378,226	0	0	378,226
Other	169,496	18,862	263,071	451,429
State sources	2,157,353	0	144	2,157,497
Federal sources	148,140	0	0	148,140
Total revenues	4,831,602	430,061	459,128	5,720,791
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	2,083,204	0	38,028	2,121,232
Special instruction	651,536	0	0	651,536
Other instruction	564,557	0	219,022	783,579
	3,299,297	0	257,050	3,556,347
Support services:				
Student services	26,394	0	0	26,394
Instructional staff services	134,386	0	0	134,386
Administration services	531,165	0	27,063	558,228
Operation and maintenance of plant services	335,340	0	32,015	367,355
Transportation services	173,433	18,873	7,668	199,974
	1,200,718	18,873	66,746	1,286,337
Non-instruction:				
Community service operations	0	0	400	400
Other expenditures:				
Facilities acquisitions	0	211,030	5,444	216,474
Long-term debt:				
Principal	0	0	10,802	10,802
Interest	0	0	893	893
AEA flowthrough	166,591	0	0	166,591
	166,591	211,030	17,139	394,760
Total expenditures	4,666,606	229,903	341,335	5,237,844
Excess of revenues over expenditures	164,996	200,158	117,793	482,947
Other financing sources(uses):				
Transfer in	0	0	11,695	11,695
Transfer out	(41,819)	(11,695)	(48,099)	(101,613)
Sale of equipment	2,366	0	0	2,366
Total other financing sources(uses)	(39,453)	(11,695)	(36,404)	(87,552)
Net change in fund balances	125,543	188,463	81,389	395,395
Fund balance beginning of year	446,544	292,099	240,978	979,621
Fund balance end of year	\$ 572,087	480,562	322,367	1,375,016

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 395,395

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Depreciation expense	\$ (118,965)	
Capital outlay expenditures	<u>115,366</u>	(3,599)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	33,264
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	(332,531)
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Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	10,802
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Changes in net assets of governmental activities (page 14)	<u><u>\$ 103,378</u></u>
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SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2007

	School Nutrition	Pre- school	Total
<b>Assets</b>			
Cash and pooled investments	\$ 20,759	7,040	27,799
Accounts receivable	3,970	0	3,970
Inventories	8,784	0	8,784
Capital assets, net of accumulated depreciation(Note 5)	43,112	0	43,112
<b>Total Assets</b>	<b>76,625</b>	<b>7,040</b>	<b>83,665</b>
<b>Liabilities</b>			
Salaries and benefits payable	7,534	9,699	17,233
Unearned revenues	1,879	0	1,879
<b>Total Liabilities</b>	<b>9,413</b>	<b>9,699</b>	<b>19,112</b>
<b>Net Assets</b>			
Invested in capital assets	43,112	0	43,112
Unrestricted	24,100	(2,659)	21,441
<b>Total Net Asset</b>	<b>\$ 67,212</b>	<b>(2,659)</b>	<b>64,553</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2007

	School Nutrition	Pre- school	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 167,358	0	167,358
Miscellaneous	954	13,354	14,308
TOTAL OPERATING REVENUES	168,312	13,354	181,666
OPERATING EXPENSES:			
Instruction:			
Salaries	0	41,628	41,628
Non-instructional programs:			
Salaries	66,226	0	66,226
Benefits	27,724	17,672	45,396
Services	2,207	0	2,207
Supplies	137,745	6,521	144,266
Depreciation	4,753	0	4,753
TOTAL OPERATING EXPENSES	238,655	65,821	304,476
OPERATING LOSS	(70,343)	(52,467)	(122,810)
NON-OPERATING REVENUES:			
Intermediate sources	0	10,658	10,658
State sources	2,687	0	2,687
Federal sources	81,309	0	81,309
Interest income	542	31	573
TOTAL NON-OPERATING REVENUES	84,538	10,689	95,227
Net income(loss) before other financing sources	14,195	(41,778)	(27,583)
OTHER FINANCING SOURCES:			
Transfer from General Fund	2,700	39,119	41,819
Capital contributions	10,660	0	10,660
Total other financing sources	13,360	39,119	52,479
Changes in net assets	27,555	(2,659)	24,896
Net assets beginning of year	39,657	0	39,657
Net assets end of year	\$ 67,212	(2,659)	64,553

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2007

	School Nutrition	Pre- school	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 163,703	0	163,703
Cash received from miscellaneous operating activities	954	13,354	14,308
Cash payments to employees for services	(93,574)	(49,601)	(143,175)
Cash payments to suppliers for goods or services	(126,470)	(6,521)	(132,991)
Net cash used in operating activities	(55,387)	(42,768)	(98,155)
Cash flows from non-capital financing activities:			
Transfer from the General Fund	2,700	39,119	41,819
Intermediate grants received	0	10,658	10,658
State grants received	2,687	0	2,687
Federal grants received	67,011	0	67,011
Net cash provided by non-capital financing activities	72,398	49,777	122,175
Cash flows from investing activities:			
Interest on investments	542	31	573
Net increase in cash and cash equivalents	17,553	7,040	24,593
Cash and cash equivalents at beginning of year	3,206	0	3,206
Cash and cash equivalents at end of year	\$ 20,759	7,040	27,799
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (70,343)	(52,467)	(122,810)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	14,298	0	14,298
Depreciation	4,753	0	4,753
Increase in inventories	(749)	0	(749)
Increase in accounts receivable	(3,970)	0	(3,970)
Decrease in accounts payable	(67)	0	(67)
Increase in salaries and benefits payable	376	9,699	10,075
Increase in unearned revenue	315	0	315
Net cash used in operating activities	\$ (55,387)	(42,768)	(98,155)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 20,759	7,040	27,799

## NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$14,298.

During the year ended June 30, 2007, the Nutrition Fund received capital contributions from the Capital Projects Fund totaling \$10,660.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2007

	<u>Private Purpose Trust Scholarship</u>	<u>Agency</u>
ASSETS		
Cash and pooled investments	\$ 48,962	7,246
LIABILITIES		
Due to other groups	0	7,246
NET ASSETS		
Reserved for scholarships	<u>\$ 48,962</u>	<u>0</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest	\$ 2,089
Contributions	2,024
Total additions	<u>4,113</u>
Deductions:	
Non-instructional programs:	
Scholarships awarded	<u>3,250</u>
Change in net assets before other financing sources	863
Other financing sources:	
Transfer in	<u>48,099</u>
Change in net assets	48,962
Net assets beginning of year	<u>0</u>
Net assets end of year	<u><u>\$ 48,962</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**(1) Summary of Significant Accounting Policies**

The Montezuma Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Montezuma, Iowa, and the predominate agricultural territory in a portion of Poweshiek County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Montezuma Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Montezuma Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Poweshiek County Assessor's Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the School Nutrition Fund and Preschool Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool Fund is used to account for the preschool services and/or child care provided by the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operation.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,000
Buildings	3,000
Land improvements	3,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	30 years
Land improvements	15 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the instruction, support services and non-instructional programs functions exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments at June 30, 2007, are as follows:

Type	Amortized Cost
Diversified Portfolio	\$ 1,440,923

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.



Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

**(3) Transfers**

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 11,695
School Nutrition	General	2,700
Private-Purpose Trust	Special Revenue, Expendable Trust	48,099
Preschool	General	39,119
Total		<u>\$ 101,613</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 0	27,879	0	24,402
2007-08A	6/28/07	6/27/08	374,408	112	375,000	95
Total			<u>\$ 374,408</u>	<u>27,991</u>	<u>375,000</u>	<u>24,497</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ 0	225,000	225,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2007-08B	4.500%	5.455%

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 52,500	0	0	52,500
Construction in progress	0	41,961	0	41,961
Total capital assets not being depreciated	52,500	41,961	0	94,461
Capital assets being depreciated:				
Buildings	3,219,624	0	23,357	3,196,267
Land improvements	91,504	12,131	0	103,635
Machinery and equipment	654,043	61,274	0	715,317
Total capital assets being depreciated	3,965,171	73,405	23,357	4,015,219
Less accumulated depreciation for:				
Buildings	2,361,757	63,381	23,357	2,401,781
Land improvements	51,174	5,667	0	56,841
Machinery and equipment	520,837	49,917	0	570,754
Total accumulated depreciation	2,933,768	118,965	23,357	3,029,376
Total capital assets being depreciated, net	1,031,403	(45,560)	0	985,843
Governmental activities capital assets, net	\$ 1,083,903	(3,599)	0	1,080,304

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 118,975	10,660	0	129,635
Less accumulated depreciation	81,770	4,753	0	86,523
Business-type activities capital assets, net	<u>\$ 37,205</u>	<u>5,907</u>	<u>0</u>	<u>43,112</u>

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 899
Other	1,630

Support services:

Administration	11,794
Operation and maintenance of plant	11,309
Transportation	24,285
	<u>49,917</u>
Unallocated depreciation	<u>69,048</u>

Total governmental activities depreciation expense \$ 118,965

Business-type activities:

Food services	<u>\$ 4,753</u>
---------------	-----------------

**(6) Long-Term Liabilities**

A summary of changes in long-term debt for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Early retirement	\$ 32,995	355,942	23,411	365,526	127,797
Bus lease	22,041	0	10,802	11,239	11,239
Total	<u>\$ 55,036</u>	<u>355,942</u>	<u>34,213</u>	<u>376,765</u>	<u>139,036</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application, which is subject to approval by the Board of Education. Early retirement benefits paid during the year ended June 30, 2007, totaled \$23,411. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

Bus Lease Payable

During the year ended June 30, 2003 the District entered into a lease for a new school bus. This lease is payable from the Capital Projects Fund. Details of the indebtedness are as follows:

Year ended June 30,	Bus lease April 21, 2003			
	Interest Rate	Principal	Interest	Total
2008	4.05 %	\$ 11,239	455	11,694

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$157,408, \$150,304 and \$148,542 respectively, equal to the required contributions for each year.

**(8) Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$166,591 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(10) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the instruction, support services and non-instructional programs functions exceeded the amounts budgeted.

**(11) Deficit Fund Balance**

The Enterprise - Preschool Fund had deficit unrestricted net assets of \$2,659.

**(12) Construction Commitment**

As of June 30, 2007, costs of \$41,961 had been incurred for a roof replacement project at the school. When the project is completed, the construction costs will be added to the capital assets.

REQUIRED SUPPLEMENTARY INFORMATION

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,415,154	182,239	3,597,393	3,187,438	3,187,438	409,955
Intermediate sources	0	10,658	10,658	0	0	10,658
State sources	2,157,497	2,687	2,160,184	2,147,502	2,147,502	12,682
Federal sources	148,140	81,309	229,449	221,000	221,000	8,449
Total revenues	5,720,791	276,893	5,997,684	5,555,940	5,555,940	441,744
Expenditures:						
Instruction	3,556,347	41,628	3,597,975	3,583,000	3,583,000	(14,975)
Support services	1,286,337	0	1,286,337	1,162,200	1,162,200	(124,137)
Non-instructional programs	400	262,848	263,248	233,150	233,150	(30,098)
Other expenditures	394,760	0	394,760	713,940	713,940	319,180
Total expenditures	5,237,844	304,476	5,542,320	5,692,290	5,692,290	149,970
Excess(deficiency) of revenues over(under) expenditures	482,947	(27,583)	455,364	(136,350)	(136,350)	591,714
Other financing sources, net	(87,552)	52,479	(35,073)	0	0	(35,073)
Excess(deficiency) of revenues and other financing sources(uses) over(under) expenditures	395,395	24,896	420,291	(136,350)	(136,350)	556,641
Balance beginning of year	979,621	39,657	1,019,278	1,001,018	1,001,018	18,260
Balance end of year	\$ 1,375,016	64,553	1,439,569	864,668	864,668	574,901

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the instruction, support services and non-instructional programs functions exceeded the amounts budgeted.



OTHER SUPPLEMENTARY INFORMATION

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2007

	Special Revenue Funds					Total
	Manage-	Student	Physical	Total	Debt	Other
	ment	Activity	Plant & Equipment	Special Revenue	Service	Nonmajor Governmental Funds
	Levy		Levy			
<b>Assets</b>						
Cash and pooled investments	\$ 113,535	154,805	50,805	319,145	1,216	320,361
Receivables:						
Property tax:						
Current year delinquent	1,797	0	709	2,506	0	2,506
Succeeding year	190,000	0	38,000	228,000	0	228,000
Accounts	0	546	0	546	0	546
<b>Total Assets</b>	<b>\$ 305,332</b>	<b>155,351</b>	<b>89,514</b>	<b>550,197</b>	<b>1,216</b>	<b>551,413</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 0	1,046	0	1,046	0	1,046
Deferred revenue:						
Succeeding year property tax	190,000	0	38,000	228,000	0	228,000
	190,000	1,046	38,000	229,046	0	229,046
Fund balances:						
Reserved:						
Debt service	0	0	0	0	1,216	1,216
Unreserved	115,332	154,305	51,514	321,151	0	321,151
Total fund balances	115,332	154,305	51,514	321,151	1,216	322,367
<b>Total Liabilities and Fund Balances</b>	<b>\$ 305,332</b>	<b>155,351</b>	<b>89,514</b>	<b>550,197</b>	<b>1,216</b>	<b>551,413</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds						Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 140,078	0	55,256	0	195,334	579	195,913
Other	14,949	244,455	3,666	0	263,070	1	263,071
State sources	103	0	41	0	144	0	144
TOTAL REVENUES	155,130	244,455	58,963	0	458,548	580	459,128
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	37,318	0	710	0	38,028	0	38,028
Other instruction	0	219,022	0	0	219,022	0	219,022
Support services:							
Administration services	27,063	0	0	0	27,063	0	27,063
Operation and maintenance of plant services	30,438	0	1,577	0	32,015	0	32,015
Transportation services	7,668	0	0	0	7,668	0	7,668
Non-instructional programs:							
Community service operations	0	400	0	0	400	0	400
Other expenditures:							
Facilities acquisitions	0	0	5,444	0	5,444	0	5,444
Long-term debt:							
Principal	0	0	0	0	0	10,802	10,802
Interest	0	0	0	0	0	893	893
TOTAL EXPENDITURES	102,487	219,422	7,731	0	329,640	11,695	341,335
Excess(deficiency) of revenues over(under) expenditures	52,643	25,033	51,232	0	128,908	(11,115)	117,793
OTHER FINANCING SOURCES(USES):							
Transfer in	0	0	0	0	0	11,695	11,695
Transfer out	0	0	0	(48,099)	(48,099)	0	(48,099)
TOTAL OTHER FINANCING SOURCES(USES)	0	0	0	(48,099)	(48,099)	11,695	(36,404)
NET CHANGE IN FUND BALANCES	52,643	25,033	51,232	(48,099)	80,809	580	81,389
FUND BALANCES BEGINNING OF YEAR	62,689	129,272	282	48,099	240,342	636	240,978
FUND BALANCES END OF YEAR	\$ 115,332	154,305	51,514	0	321,151	1,216	322,367

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
JH heritage trip	\$ 20,365	36,845	25,995	31,215
Curtain callers	256	7,116	7,253	119
Drill team	670	0	670	0
Winterguard fund	0	3,186	2,532	654
Instrumental music	753	1,922	1,696	979
Vocal music	5,608	672	2,575	3,705
Band uniforms	4,788	1,000	0	5,788
Cross country	0	878	791	87
Athletics	31,122	46,437	36,556	41,003
Football	573	2,016	2,513	76
Baseball	935	3,432	3,156	1,211
Golf team	755	309	120	944
Boys basketball	3,744	3,538	3,223	4,059
Girls BB camp	6,396	1,984	4,805	3,575
Volleyball	2,225	4,439	4,742	1,922
Wrestling	2,535	1,649	2,518	1,666
German club	3,163	0	750	2,413
Good news program	610	481	321	770
Class of 2012	0	20	0	20
Class of 2011	119	5	0	124
Class of 2010	119	30	0	149
Class of 2009	135	905	350	690
Class of 2008	819	10,544	11,121	242
Class of 2007	3,069	889	3,043	915
Class of 2006	259	0	259	0
Torch club	143	0	90	53
FFA	13,219	63,013	52,106	24,126
FCCLA	1,009	5,382	5,431	960
Student pop	247	0	247	0
JH student council	360	1,036	987	409
HS student council	5,731	2,861	3,288	5,304
Cheerleaders	975	4,054	3,943	1,086
Spanish club	7,796	5,626	12,093	1,329
Summer recreation	2,047	2,515	1,853	2,709
Publications	2,639	22,088	16,153	8,574
Elementary activities	6,088	6,385	8,242	4,231
Interest	0	3,198	0	3,198
Total	\$ 129,272	244,455	219,422	154,305

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2007

	Beginning Balance	Increases	Decreases	Ending Balance
<b>FLOWER FUND</b>				
Assets:				
Cash and other investments	\$ 1,649	240	165	1,724
Liabilities:				
Due to other groups	\$ 1,649	240	165	1,724
<b>COFFEE FUND</b>				
Assets:				
Cash and other investments	\$ 6,663	959	2,100	5,522
Liabilities:				
Accounts payable	\$ 125	0	125	0
Due to other groups	6,538	959	1,975	5,522
	\$ 6,663	959	2,100	5,522
<b>TOTAL</b>				
Cash and other investments	\$ 9,812	1,199	3,765	7,246
Liabilities:				
Accounts payable	\$ 125	0	125	0
Due to other groups	9,687	1,199	3,640	7,246
	\$ 9,812	1,199	3,765	7,246

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30				
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 2,585,499	2,370,528	2,467,051	1,859,848
Tuition	378,226	300,238	356,290	335,115
Other	451,429	416,211	272,098	723,866
Intermediate sources	0	0	4,961	0
State sources	2,157,497	2,147,777	2,130,751	1,984,365
Federal sources	148,140	143,666	132,406	125,043
Total	<u>\$ 5,720,791</u>	<u>5,378,420</u>	<u>5,363,557</u>	<u>5,028,237</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 2,121,232	2,144,063	1,939,282	1,856,224
Special instruction	651,536	756,251	817,580	820,977
Other instruction	783,579	573,994	579,420	593,525
Support services:				
Student services	26,394	31,655	61,655	60,648
Instructional staff services	134,386	97,900	127,590	125,909
Administration services	558,228	455,873	522,741	495,998
Operation and maintenance of plant services	367,355	375,074	293,112	340,600
Transportation services	199,974	220,386	156,137	149,656
Non-instructional programs:	400	0	0	0
Other expenditures:				
Facilities acquisition	216,474	243,510	127,630	65,456
Long-term debt:				
Principal	10,802	57,126	213,784	145,000
Interest	893	2,218	6,922	13,278
AEA flowthrough	166,591	162,058	158,921	159,207
Total	<u>\$ 5,237,844</u>	<u>5,120,108</u>	<u>5,004,774</u>	<u>4,826,478</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
Montezuma Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 26, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montezuma Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Montezuma Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Montezuma Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Montezuma Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Montezuma Community School District's financial statements that is more than inconsequential will not be prevented or detected by Montezuma Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Montezuma Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montezuma Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Montezuma Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Montezuma Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Montezuma Community School District and other parties to whom Montezuma Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Montezuma Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

March 26, 2008



MONTEZUMA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-07 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). Specific examples of instances of questioned items and recommendations are as follows:

We noted the purchase of instructional equipment from the Activity Fund. Purchases of instructional equipment and supplies from the Activity Fund are inappropriate and should be handled from the General Fund.

Receipts and subsequent expenditures from the federal Learn and Serve America School and Community Based Programs (COMSERVE) grant were noted in the Student Activity Fund. As mentioned above the Student Activity Fund is not an appropriate place to record transactions related to federal grants. This grant would be more appropriately handled in the General Fund.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - Receipts and disbursements are monitored to assure they are appropriate for the Student Activity Fund.

Conclusion - Response acknowledged. In the future, all state and federal grants should be receipted and subsequently expended from the General Fund. Instructional supplies should be purchased from the General Fund.

I-C-07 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with Department of Labor requirements on wage per hour contracts, the District needs to keep track of hours worked by coaches who are non-certified staff to determine if they are paid at least minimum wage.

Response - Time sheets are being collected and reviewed with appropriate approvals.

Conclusion - Response accepted.

I-D-07 Board Policies - We noted during our audit that the District's board policy book had not been updated or reviewed since 1998.

Recommendation - The District needs to review board policies every five years.

Response - We are undergoing a comprehensive review with a portion of the policies being reviewed monthly.

Conclusion - Response accepted.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget - District expenditures for the year ended June 30, 2007 exceeded the amounts budgeted in the instruction, support services and non-instructional programs functions.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Budget will be reviewed and amended as necessary in the future.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Steve Audas, Board Member Owner Sudas Sanitation	Purchased services	\$5,178
Pete Ross, Board Member Son owns Ross Lawn Service	Purchases services	\$563

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the son of the Board Member does not appear to represent a conflict of interest.

In accordance with Chapter 279.7A of the Code of Iowa, the above transaction with the Board Member does appear to represent a conflict of interest.

Recommendation - The District should seek legal counsel in regards to Mr. Audas.

Response - Mr. Audas provides a specific service not otherwise available. We will seek legal counsel to review.

Conclusion - Response accepted.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-07 Local Option Sales and Service Tax Expenditures - According to Chapter 298.3 of the Code of Iowa, PPEL monies may be used for the purchase of a single unit of equipment exceeding \$500 per unit. According to the District's revenue purpose statement, local option sales and service tax money can be spent for PPEL type expenditures, thus falling within the same \$500 per unit of equipment restriction. We noted during our audit of the Capital Projects Fund the purchase of twenty computers totaling \$12,997 and twenty microscopes totaling \$4,176.65. These expenditures, which are less than \$500 per single unit, are inappropriate from the Capital Projects Fund.

We also noted a computer licensing fee totaling \$4,809.24. Computer licensing fees are not considered equipment; therefore this expenditure is also inappropriate from the Capital Projects Fund.

Recommendation - The District should review the Code of Iowa with regard to allowable expenditures for equipment from the PPEL Fund and apply towards the Capital Projects Fund to avoid noncompliance. The District should review revenue purpose statements in regards to the use of local option sales and service tax money to avoid noncompliance.

The District should make a corrective transfer to the Capital Projects Fund from the General Fund in the amount of \$21,982.89.

Response - We have transferred the amount that has been requested. Currently, we are monitoring expenditures to ensure they are appropriate for the Capital Projects Fund.

Conclusion - Response accepted.

- II-K-07 Financial Condition - During our audit, we noted the Enterprise – Preschool Fund had deficit unrestricted net assets of \$2,659.

Recommendation - The District should review purchase approval procedures for the Enterprise - Preschool Fund and may wish to require additional approval before ordering goods or services from this fund. The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - The District will investigate ways to eliminate the deficit in this fund.

Conclusion - Response accepted.